

Northumberland Bancorp

245 Front Street • P.O. Box 271 • Northumberland, PA 17857
(570) 473-3531 Fax (570) 473-9697

December 11, 2015

Dear Shareholder:

The assets of Northumberland Bancorp, parent company of The Northumberland National Bank grew for the nine month period ending September 30, 2015, and reached \$480,457,000 compared to \$479,145,000 on September 30, 2014. Net loans, including loans held for sale, were \$282,387,000 at September 30, 2015, compared to \$265,922,000 at September 30, 2014, or an increase of 6.19%. Deposits decreased slightly to \$431,106,000 at September 30, 2015 from \$431,727,000 in 2014.

Your company reported earnings for the quarter ended September 30, 2015 of \$741,000. Net interest margin improved from 2.91% in 2014 to 3.02% in 2015. While the low interest rate environment continues to provide challenges, the bank was able to take some measures to enhance our margin. The bank is asset sensitive in the near term and appears balanced overall. Accordingly, I believe that we are well positioned to handle potential interest rate increases that may occur over the next year.

The bank's past due loans and loans on non-accrual status was 1.55% on September 30, 2015. The allowance for loan losses was .91% of loans outstanding compared to .91% at December 31, 2014.

The bank's capital remains strong with a tier one leverage capital ratio of 10.12%. The bank's risk based capital is even stronger, with tier one capital to risk-weighted assets at 19.29%, and total risk based capital to risk-weighted assets at 20.32%.

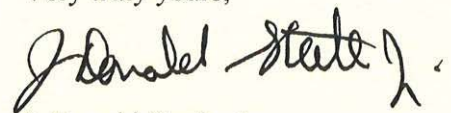
Non-interest income was \$926,000 for the quarter ended September 30, 2015, compared to \$977,000 for the quarter ended September 30, 2014. This decrease was primarily the result of a lower level of security gains and gains from the sale of mortgages.

Non-interest expense increased \$544,000 from the third quarter of 2014. Various factors contributed to the increase, including increases in salaries and benefits, and professional fees and ancillary expenses related to the bank's investigation of certain trust department activities. Additional costs related to the implementation of a managed computer environment also contributed to the increased expenses. The managed computer environment better addresses risks from cyber security threats and maintains a more stable computer environment.

The board of directors authorized payment of a dividend in the fourth quarter of \$.11 per share, payable December 18, 2015 to holders of record on December 15, 2015. The fourth quarter dividend is less than the normal \$.21 quarterly dividend due to the lower earnings that the company has experienced so far in 2015, coupled with recognition of additional expenses to be incurred in the fourth quarter as a result of issues identified in the aforementioned trust investigation.

We thank you, our shareholders, for your continued support.

Very truly yours,



J. Donald Steele, Jr.
Chairman & President

NORTHUMBERLAND BANCORP
245 Front Street, Northumberland, PA
For the Quarter Ending
September 30, 2015 and 2014
Amounts in thousands

STATEMENT OF CONDITION (Unaudited)

| | <u>2015</u> | <u>2014</u> |
|--------------------------------------|--------------------------|--------------------------|
| ASSETS | | |
| Cash and Due From Banks | \$ 5,313 | \$ 4,599 |
| Interest Bearing Balances with Banks | 5,759 | 7,915 |
| Investment Securities | 160,233 | 176,543 |
| Loans Held for Sale | 1,858 | 528 |
| Loans, Net | 283,109 | 267,982 |
| Allowance for Loan Losses | (2,580) | (2,588) |
| Net Loans | <u>280,529</u> | <u>265,394</u> |
| Bank Premise and Equipment, Net | 9,900 | 8,589 |
| Accrued Interest Receivable | 1,634 | 1,634 |
| Other Assets | 15,231 | 13,943 |
| TOTAL ASSETS | <u><u>\$ 480,457</u></u> | <u><u>\$ 479,145</u></u> |

LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits:

| | | |
|--------------------------|----------------|----------------|
| Non-interest Bearing | \$ 64,198 | \$ 58,317 |
| Interest Bearing | <u>366,908</u> | <u>373,410</u> |
| Total Deposits | 431,106 | 431,727 |
| Short Term Borrowing | 0 | 0 |
| Long Term Borrowing | 0 | 0 |
| Accrued Interest Payable | 99 | 112 |
| Other Liabilities | <u>2,240</u> | <u>966</u> |
| TOTAL LIABILITIES | 433,445 | 432,805 |

Stockholders' Equity

| | | |
|--|--------------------------|--------------------------|
| Preferred Stock-2,000,000 Shares Authorized; None Outstanding | | |
| Common Stock-Par Value \$.10; 5,000,000 Authorized 1,502,500 Issued | 150 | 150 |
| Surplus | 3,832 | 3,832 |
| Treasury Stock; 174,142 - 2015, 172,142 - 2014 | (2,248) | (2,189) |
| Unrealized Gains (Loss) Available for Sale Securities | 424 | 294 |
| Comprehensive Income Adjustment | (2,091) | (589) |
| Minority Interest | (90) | (70) |
| Retained Earnings | <u>47,035</u> | <u>44,912</u> |
| TOTAL STOCKHOLDERS' EQUITY | <u>47,012</u> | <u>46,340</u> |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | <u><u>\$ 480,457</u></u> | <u><u>\$ 479,145</u></u> |

NORTHUMBERLAND BANCORP
245 Front Street, Northumberland, PA
For the Quarter Ending
September 30, 2015 and 2014
Amounts in thousands, except per share data

STATEMENT OF INCOME (Unaudited)

| | Quarter Ended | | Nine Months Ended | |
|--|----------------|-----------------|-------------------|-----------------|
| | <u>2015</u> | <u>2014</u> | <u>2015</u> | <u>2014</u> |
| INTEREST INCOME | | | | |
| Interest and Fees on Loans | | | | |
| Taxable | \$ 3,050 | \$ 2,985 | \$ 9,057 | \$ 8,908 |
| Tax Exempt | 56 | 45 | 163 | 135 |
| Interest on Investment Securities | | | | |
| Taxable | 250 | 389 | 777 | 1,119 |
| Tax Exempt | 387 | 351 | 1,107 | 1,076 |
| Dividends | 37 | 34 | 187 | 90 |
| Interest on Interest Bearing Balances with Banks | 4 | 5 | 14 | 12 |
| TOTAL INTEREST INCOME | <u>3,784</u> | <u>3,809</u> | <u>11,305</u> | <u>11,340</u> |
| INTEREST EXPENSE | | | | |
| Deposits | 629 | 700 | 1,923 | 2,184 |
| Other | 2 | 2 | 5 | 3 |
| TOTAL INTEREST EXPENSE | <u>631</u> | <u>702</u> | <u>1,928</u> | <u>2,187</u> |
| NET INTEREST INCOME | <u>3,153</u> | <u>3,107</u> | <u>9,377</u> | <u>9,153</u> |
| Loan Loss Provision | 6 | 130 | 316 | 168 |
| NET INTEREST INCOME AFTER LOAN LOSS PROVISION | <u>3,147</u> | <u>2,977</u> | <u>9,061</u> | <u>8,985</u> |
| OTHER INCOME | | | | |
| Gain (Loss) on Sale of Securities | 31 | 101 | 128 | 187 |
| Service Charges on Deposit Accounts | 106 | 88 | 263 | 239 |
| Gain (Loss) on Loans Held for Sale | 171 | 232 | 559 | 604 |
| Other Service Charges | 427 | 366 | 1,455 | 1,082 |
| Trust Department Income | 191 | 190 | 510 | 470 |
| TOTAL OTHER INCOME | <u>926</u> | <u>977</u> | <u>2,915</u> | <u>2,582</u> |
| OTHER EXPENSES | | | | |
| Salaries and Benefits | 1,609 | 1,448 | 4,780 | 4,398 |
| Occupancy Expenses | 400 | 372 | 1,172 | 1,103 |
| Other | 1,194 | 839 | 3,289 | 2,533 |
| TOTAL OTHER EXPENSES | <u>3,203</u> | <u>2,659</u> | <u>9,241</u> | <u>8,034</u> |
| INCOME BEFORE INCOME TAXES | 870 | 1,295 | 2,735 | 3,533 |
| Income Taxes | 129 | 282 | 449 | 747 |
| NET INCOME | <u>\$ 741</u> | <u>\$ 1,013</u> | <u>\$ 2,286</u> | <u>\$ 2,786</u> |
| Earnings per share | <u>\$ 0.56</u> | <u>\$ 0.76</u> | <u>\$ 1.72</u> | <u>\$ 2.09</u> |
| Weighted Average Shares Outstanding | 1,328,521 | 1,330,804 | 1,329,045 | 1,331,013 |